This TSX Tech Growth Stock Continues to Shine Through a Recession

Description

One of the best-performing TSX tech stocks this year, **Enghouse Systems** (TSX:ENGH) is firing on all cylinders after reporting another great set of quarterly earnings results on September 10. The latest financial results give strong support to my earlier claim that Enghouse Systems is among the best Canadian tech stocks for investors who want to compound their wealth in a Tax-Free Savings Account (TFSA).

Enghouse Systems is a software company serving enterprise customers with corporate communications, information management, and customer service systems, and asset management tools.

A TSX tech stock with strong revenue, earnings, and cash flow growth

Enghouse Systems's third-quarter revenue to July 31, 2020, was nearly 30% higher than last year at $131.3 million. Gross margins expanded to 69.7%, up from 68.7% during the same period last year. The company's strong revenue growth trend remains strong, building on a previous good quarter, which ended in April this year.

Deferred revenue on the company's balance sheet increased by 35% year over year to $106 million. There's a lot more service to be delivered to customers who have already paid in advance.

Impressively, operating income grew by 56.2% to $42.2 million up from $27 million during the same quarter last year. Its operating margins expanded from 26.7% a year ago to 32.1% during the past quarter. Likewise, the adjusted EBITDA margin, another more reliable gauge of operating profitability, expanded to 34.7%, up from 27.7% last year.

Most noteworthy, ENGH's third-quarter net income surged by 77.3% year over year to $26 million, up from $14.7 million in 2019. Stellar cost management was a driving factor.

A strong surge in cash flow fuels growth strategy

Enghouse didn't just report growing profits. The company saw its cash balance balloon to give it a better arsenal for its acquisitions-led growth strategy.

Operating cash flow increased by 301.7% to $55.69 million for the quarter. Cash, cash equivalents, and short-term investments increased to $228.9 million by the end of July, up from $150.3 million on October 31, 2019. This growth was achieved even after paying out $19.5 million in dividends and spending $43.9 million in acquisitions over the past nine months.

The company has replenished its dry powder. Management is currently negotiating with possible acquisition targets. Some prospects have reportedly been slow in advancing acquisition negotiations as they focus on serving the pandemic. However, we could still expect an accretive transaction or two in the near future.

Can you still buy ENGH stock and make money today?

Enghouse Systems was my contrarian buy recommendation in March 2019. Investors have more than doubled their capital since then. The stock was again a buy recommendation in December last year for growth-focused investors.

I remain bullish on the company's future prospects. Its resilient, cash-rich, and high-margin business model has proven defensive during the ongoing recession. Investors could look forward to new acquisitions funded from non-dilutive internally generated funds. Growth will sustainably continue in the future.

The company remains a highly profitable heavy cash-generating growth machine that ticks all boxes for a growth-oriented investor. Winnings during the COVID-19 pandemic were added benefits to an already growing business with increasing recurring revenue and a sustainable growth strategy.

ENGH is clearly a winner in this pandemic economy. It assisted companies to comfortably implement secure work-from-home solutions and its subsidiary Vidyo saw strong demand growth for its video communications platform during the onset of the COVID-19 pandemic. The company continues to see above-average demand for its technology suits, even as international governments started to ease some social-distancing guidelines.

Given the company's high double-digit revenue-growth rates, double-digit returns on assets, and a 21% return on equity annually, long-term investors could still record decent equity returns on this TSX tech stock. Invested capital could compound faster in a TFSA.

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